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RR RUEHCHI RUEHDT RUEHHM RUEHNH  
DE RUEHHI #1813 2920951

ZNR UUUUU ZZH

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FM AMEMBASSY HANOI

TO RUEHC/SECSTATE WASHDC 6544

INFO RUEHHM/AMCONSUL HO CHI MINH 3828

RUCNASE/ASEAN MEMBER COLLECTIVE

RUCPDOC/DEPT OF COMMERCE WASHINGTON DC

UNCLAS HANOI 001813

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STATE PASS USTR FOR DBISBEE  
SINGAPORE FOR SUSAN BAKER

E.O. 12958: N/A

TAGS: ECON EFIN PGOV VM

SUBJECT: INFLATION A CONCERN BUT NOT OUT OF CONTROL

REF: A) HANOI 1729

B) RANGOON 901

**¶1.** (SBU) Summary: While people are not happy about higher prices, including double-digit percentage increases of some food staples, there has been little commotion in Vietnam in response to rising inflation. The strength of economic growth has mitigated the impact of inflation, while incomes continue to rise and demand for skilled labor remains intense. End summary.

**¶2.** (U) Inflation in Vietnam grew by 7.53% in the first nine months of the year, and in September, it measured 8.8% year-on-year, according to the government of Vietnam's (GVN) General Statistics Office (GSO). The rise of food prices has been even higher, at 14.90% in September. According to the GSO, prices were up across a broad range of goods and services, including housing and construction materials (9.95%), medicines and health care (4.65%), and household goods and appliances (6.37%).

NO THREAT OF PRICE SPIKES FROM SUBSIDY REMOVALS

**¶3.** (U) The Vietnamese government still maintains price controls on some goods or keeps their prices artificially low through subsidies, but these are limited. By law, the GVN reserves for itself the right to introduce subsidies or price controls on such as rice, coffee and construction materials. Currently, however, the only direct subsidies are on lubricants and diesel (currently at 39% of the price). Like diesel, gasoline is subject to price controls but unlike it, it is not subsidized. The state-owned retailers have asked the GVN to raise the cap on gasoline prices because they are selling at an 11% loss (the GVN revises the price caps about every two months according to movements in world prices). In addition to diesel and gasoline, there are price controls in effect on electricity, local transportation, mail, water, telecommunications and newspapers.

**¶4.** (U) In August, the GVN reduced the tariffs on 18 commodities and on fuel by as much as 30% in an attempt to bring down inflation (ref A). The measures had mixed results, reducing increases in many categories but failing to make much of a dent on food prices.

REACTION TO INFLATION HAS BEEN MANAGEABLE

**¶5.** (SBU) Although Vietnamese consumers and the press have decried the price increases (with The Vietnam Investment Review calling the CPI growth "a runaway train" on its latest issue), the public response has been manageable. Consumer confidence remains high, and spending in the first nine months of 2007 was \$32.3 billion compared with \$36 billion in the whole of 2006, according to figures released in October by the Vietnam Association of Small and Medium

Enterprises.

**¶6.** (U) Real GDP growth is over 8% this year and economists expect high growth to continue, driven mainly by industrial expansion, consumer spending and fixed investment. Incomes are also rising. While labor demand in the second quarter of this year surged 42% on the previous quarter, labor supply rose a mere 30%, prompting increasing salaries, according to Vietnam's largest job website VietnamWorks.com. Moreover, in a September 2007 report, the Asian Development Bank predicted that inflation in Vietnam would actually fall in 2008 (to about 6.8%).

COMMENT

**¶7.** (SBU) Although inflation is at the highest rate in three years, no one expects consumers or monks to take to the streets in protest.

In Burma, for instance, public transportation went up by 100-300% and fuel by 60-100% in August (Ref B), while in Vietnam these indicators remained in single digits (transportation up by 3.44%, and fuel by 7.2%, according to GSO). UNDP figures show that Burma has averaged 26.8% inflation for the last six years, whereas Vietnam's has been 5.05%. Still, the GVN is concerned about any issues, including inflation, which could negatively affect economic growth. Continuing to implement market-oriented economic reforms, including in its monetary policy apparatus, is the best way to maintain Vietnam's economic development.

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